DEVELOPMENT COMMITTEE
(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
on the
Transfer of Real Resources to Developing Countries)

**NINETY-EIGHTH MEETING**
**BALI, INDONESIA – OCTOBER 13, 2018**

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**Statement by**

**Gilbert F. Houngbo**
**President**

**International Fund for Agricultural Development**

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**98th Meeting of the Development Committee**

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The world's low-income countries (LIC) account for a fifth of the world's population but only 4 per cent of global output. The level of public debt in LICs range between 40-50 per cent of GDP while deficits trend upward. As these resource-stretched countries struggle to make the investments necessary to move forward their national development and to achieve the Sustainable Development Goals, debt is a risk that can leave them falling behind.

Debt vulnerabilities in LICs have been increasing, rising from 33 per cent of GDP in 2013 to about 50 per cent of GDP in 2017. Changing creditors' composition in the last three to four years--to non-Paris Club bilateral creditors, sovereign bond issues, other foreign commercial lenders, and domestic banks--has raised the attention of governments, international financial authorities and institutions and private lenders to this complex problem.

The root causes of higher public debt risk are various. Among the key drivers of such higher risk are market shocks, such as steady drops in commodity prices since 2014 which impact exporter LICs**;** natural disasters such as earthquakes, tsunamis and the Ebola outbreak; non-productive investment financed by public spending; and easy borrowing due to sizable liquidity available in the financial markets and risk appetite by lenders for high risk-returns.

As an international financial institution (IFI), IFAD is concerned with how IFIs can contribute to mitigating the risks associated with debt vulnerability. And as an institution dedicated to investing in rural areas, where most of our food is produced and where 80 per cent of the world's poorest people live, we are specifically concerned with how to enable our Member States to make the investments necessary to achieve zero hunger and eliminate extreme poverty by 2030.

In some LICs (e.g. Bangladesh, Kenya, Madagascar, Moldova, and Nicaragua), debt vulnerability has been partially mitigated, as borrowing was mostly directed to finance infrastructure investment which in turn is fostering long-term growth and thereby generating revenues to service the higher debt.

But an IFI and UN specialised agency such as IFAD could play an important role not only in continuing to ensure financial resources to LICs, but also coordinating better among other IFIs in advising those countries on how to mitigate vulnerabilities for long-term debt sustainability. This would consequently help LICs improve their risk and credit situations.

IFIs can also promote among lenders a more prudent and comprehensive risk assessment of LICs' debt position before providing resources, as well as facilitating more efficient creditor coordination in cases of debt restructuring. They could also could consider using the grants component of their resources to strengthen technical assistance to LICs for public debt management, vulnerability mitigation planning and reporting. Other donors can also increase their support to LICs in this context.

IFAD’s goal is to invest in rural people, empowering them to reduce poverty, increase food security, improve nutrition and strengthen resilience. Addressing debt vulnerabilities in emerging and low-income economies is an important element of strengthening IFAD's operations and creating the enabling environment for rural transformation.

As an example, IFAD proactively joined with other IFIs in past debt relief initiatives such as the Heavily Indebted Poor Country Initiative (HIPC) and special debt relief for Haiti in the aftermath of the 2009 earthquake. In 2007, IFAD adopted the Debt Sustainable Framework (DSF) which is an instrument providing grant resources to the poorest countries, and represents a cumulative allocation of approximately 18 per cent of IFAD's resources.

For smallholder farmers and rural entrepreneurs to succeed, they need a range of public goods that government is best placed to provide. These include better infrastructure, technology, conducive regulatory regimes and an enabling environment for investment. Investing in development is not just about adding more fuel to the fire, in terms of greater funding. It is also about sustainability of finance—including managing debt vulnerability—and providing the technical assistance to build country capacity in this area, particularly in LICs.

IFAD is committed to working with all partners, including other IFIs, to scale up responsible investment to help countries achieve their development goals in ways that are inclusive and sustainable, for governments as well as their people.